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FISCAL IMPACT STATEMENT

LS 6457

BILL NUMBER: SB 153

NOTE PREPARED: Feb 21, 2006

BILL AMENDED: Jan 26, 2006

SUBJECT: State Central Collection Unit and Child Support.

FIRST AUTHOR: Sen. Lawson C

FIRST SPONSOR: Rep. Richardson

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
X **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (A) *Moving the Collection Point for Non-Income Withholding/Non-Cash Child Support Payments:* This bill establishes the State Central Collection Unit (Unit) within the Child Support Bureau to collect and process noncash child support payments. The bill requires clerks of court (clerks) to collect and process cash child support payments.

(B) *Statutory Reference Changes:* The bill deletes references to "other person" and "other governmental agency" in statutes concerning the unit.

(C) The bill requires a party affected by a child support order to notify the Unit or a clerk of an address change. The bill also requires a person using income withholding to provide certain information to the Unit. It repeals a provision regarding noncash payments of child support to clerks.

(D) *State Central Collection Unit Liability:* The bill provides that the Unit is not liable for certain errors in the disbursement and collection of child support payments. It provides the procedure the Unit is to follow if the Unit improperly disburses a child support payment.

(E) *Assignment of Wages or Other Income:* The bill makes certain changes concerning income withholding orders in enforcing dissolution of marriage, legal separation, and child support decrees.

(F) The bill provides that a collection agency that contracts with the Child Support Bureau or a prosecuting attorney may, in addition to the collection of arrearage on a child support order, assess and collect from an obligor all fees, charges, costs, and other expenses as provided under the contract.

(G) *Moving Child Support and Maintenance Fee Collection from the County to State and Fee Changes*: The bill provides that an individual ordered to pay child support through income withholding shall also pay the annual Child Support Fee through income withholding. It changes the Support and Maintenance Fee to \$30. It also provides that the State Central Collection Unit may collect any unpaid fee through any lawful means.

(H) *Distribution of Child Support Incentive Money*: The bill provides that the Child Support Bureau (Bureau) may contract with a private entity to undertake Title IV-D duties. The bill also provides that the Bureau shall stipulate service levels that a prosecuting attorney, private attorney, private entity or collection agency is expected to meet and that certain funds shall be disbursed if the service levels are met. The bill provides that the Bureau retains 22.2% of incentive payments distributed to a county regarding child support payment collection. It also provides that incentive payments shall be distributed in the following manner: (1) 22.2% of the incentive payments are distributed to the county general fund; (2) 33.4% of the incentive payments are distributed to the prosecuting attorney; (3) 22.2% of the incentive payments are distributed to the court clerk; and (4) the Bureau shall retain 22.2% of the incentive payments.

(I) The bill makes technical corrections.

(The introduced version of this bill was prepared by the Select Committee on Reorganization of Child Services.)

Effective Date: Upon passage; July 1, 2006.

Summary of Net State Impact: (Revised) This bill would move the collection of non-income withholding/non-cash payments from the county clerks to the State Central Collection Unit. Total expenditures are estimated to be between \$566,733 and \$837,600 annually (after federal reimbursement).

State Expenditure Increases:		
Estimated Cost to Outsource All Non-IWO/Non-Cash Child Support Payments:		
	Low-End Estimate	High-End Estimate
Establishing a Bank-to-book Reconciliation Process (A,2)	\$25,000	\$25,000
Outsourcing Check Processing (A,3)	\$320,268	\$480,402
Outsourcing Call Center (A,4)	\$221,465	\$332,198
Total	\$566,733	\$837,600

The bill also increases revenue for the state through: (1) shifting approximately \$1.2 M in federal child support incentive money from the county to the state; (2) allowing the Unit to collect and retain all non-cash support and maintenance fees which are currently collected by counties (actual revenue shifted to the state from fees is unknown, however, would be between \$0 and \$1.5 M annually); (3) increasing child support and maintenance fees (the current fee structure varies depending on year and month paid; fees would increase from the current \$10 to \$30 to a uniform \$30); and (4) redefining "income withholding order" to include support and maintenance fees, which would then allow the Unit to collect support and maintenance fees through an income withholding order (actual fee revenue increases are unknown, however, would likely significant; 70% of child support payments are made through an income withholding order).

State Revenue Increases:	
Type of Revenue Increase	Revenue Amount
Federal Child Support Incentive Money (H)	\$1.2 M
State Collection of all Non-cash Child Support and Maintenance Fees (G)	\$0 to \$1.5 M
Increasing Child Support and Maintenance Fees (G)	Anticipated Increase
Collection of Child Support and Maintenance Fees through Income Withholding Orders (G)	Anticipated Increase

Explanation of State Expenditures: (Revised) This bill makes multiple changes affecting the Department of Child Services (DCS) and the clerks of the court. Changes impact expenditures and revenues at both the state and local levels. The following summarizes changes affecting: the moving of non-income withholding/non-cash child support payments; statutory reference changes; State Central Collection Unit liability; assignment of wages or other income; income withholding order fee collection; Support and Maintenance Fee amounts; and distribution of child support incentive payments.

(A) *Moving the Collection Point for Non-Income Withholding/Non-Cash Child Support Payments:* This bill would move the collection of non-income withholding/non-cash payments from the county clerks to the State Central Collection Unit. The Unit is currently responsible for collection of all income withholding order payments. In FY 2005, Indiana collected approximately \$482 M in child support payments. Of this amount, approximately \$96 M (20%) was collected in non-income withholding/non-cash payments; \$48 M (10%) was collected in cash; and \$338 M (70%) was collected through an income withholding order.

	Current Law	As Proposed
Income Withholding Order (IWO) (70%)	DCS	DCS (No Change)
Non-IWO/Non-Cash (20%)	County Clerks	DCS
Cash (10%)	County Clerks	County Clerks (No Change)

State Central Collection Unit: The DCS is currently in the process of outsourcing child support collections and disbursements. This includes: (1) replacing paper check disbursements with electronic or debit card disbursements; (2) establishing a bank-to-book reconciliation process; (3) outsourcing check processing; and (4) outsourcing the call center.

An analysis was conducted by the DCS, which considered the overall cost for outsourcing all state-collected child support payments. Costs were also considered for the moving of all non-income withholding/non-cash payments to the state based off of the larger analysis for outsourcing of all collections and disbursements. **Total expenditures for moving the non-income withholding/non-cash payments from the county to the state, which this bill pertains to (in items 2, 3, and 4 below), would be between \$566,733 and \$837,600 annually (after federal reimbursement).** *These estimates do not cover the expenditures needed to outsource the current income withholding orders which the state is currently responsible.*

(1) Replacing paper check disbursements with electronic or debit card disbursements: The DCS reports that it is in the process of moving from paper check disbursements to debit card disbursements. A completion date for this process is currently unknown. There is no cost to the state or county for debit card disbursement.

(2) Establishing a bank-to-book reconciliation process: The DCS reports that a bank-to-book reconciliation process is necessary to ensure that funds in the bank account are sufficient to cover liabilities. One half-time employee would be required (non-income withholding/non-cash payments would be equal to 22% of total child support collections made by the Unit). The DCS anticipates the cost for this person to be \$25,000, including salary and benefits, annually.

(3) Outsourcing check processing: Based on new information provided by the DCS, the total estimated cost to outsource all non-income withholding/non-cash payments is between \$461,488 and \$692,232 annually. The federal government provides reimbursement to the state for 66% of the costs for IV-D cases. The total net cost, after federal reimbursement for select cases, to move all non-income withholding/non-cash payments from the county to the state would be between \$320,268 and \$480,402 annually.

Numbers of cases used to calculate the aforementioned costs for outsourcing all non-income withholding/non-cash payments included 462,000 IV-D cases and 535,000 non-IV-D cases.

(4) Outsourcing the call center: The state is currently responsible for maintaining a call center and answering public inquiries pertaining to child support. A portion of inquiries currently made to the state are referred back to the county. As proposed, those calls would be handled by the Unit. Cost estimates which are provided below include the cost to handle all non-income withholding/non-cash inquiries, some of which the state is currently responsible for. Thus, the cost estimate provided below is a high-end estimate; actual costs for outsourcing non-income withholding/non-cash payments inquiries would be lower.

Based on new information provided by the DCS, the total estimated cost to outsource all non-income withholding/non-cash payments inquiries is between \$319,040 and \$478,560 annually. The federal government provides reimbursement to the state for 66% of the costs for IV-D cases. After federal reimbursement, it is estimated that the total cost to move all non-income withholding/non-cash inquiries from the county to the state would be between \$221,465 and \$332,198 annually.

Numbers of cases used to calculate the aforementioned costs for outsourcing all non-income withholding/non-cash payments inquiries included 267,462 IV-D cases and 309,398 non-IV-D cases.

(B) *Statutory Reference Changes*: This bill deletes references to "other person" and "other governmental agency" in statutes concerning the Unit.

The DCS reports that the changes will make language consistent throughout the statute relative to collection of child support income withholding orders. SEA 529-2005 created the Unit. All child support income withholding orders issued through employers are now required to be submitted to the Unit.

This provision of the bill should have no fiscal impact. However, the DCS reports that *should the language not be changed*, the federal government could cite Indiana as being in noncompliance with federally regulated child support stipulations and penalize the state financially. The DCS reports that penalties could include \$25 M in state child support incentive money and \$250 M in TANF funds.

(D) *State Central Collection Unit Liability*: This bill makes the Unit not liable for errors when collecting or disbursing child support payments. It would eliminate the potential for lawsuits against the state pertaining to errors made.

County clerks currently collect non-income withholding child support payments. Previously, they were responsible for collection of all child support payments. Processing of income withholding orders was moved to the DCS during FY 2005. Under current law, county clerks are not liable for certain errors in disbursement and collection of child support payments.

(E) *Assignment of Wages or Other Income*: This bill changes terminology used in the statute pertaining to income withholding orders. The bill changes "assignment of wages or other income" to "an income withholding order." The DCS reports that this change is purely technical. Thus, no fiscal impact is anticipated.

Explanation of State Revenues: (Revised) (G) *Moving Child Support and Maintenance Fee Collection from the County to State and Fee Changes*: Under current law, all support and maintenance fees are collected and retained by clerks of the court. This bill would allow the Unit to collect and retain all non-cash support and maintenance fees. Counties collected a total of \$1.5 M in fee revenue during SFY 2004 (See *Background Information on support & maintenance fees collected*). Amounts collected vary by year and month paid. (See Child Support and Maintenance Fee Amounts Table, below.)

Data is not collected which indicates the actual number of persons paying support and maintenance fees, or in what manner persons paying fees pay their child support (i.e., income withholding, cash, or other). However, the Association of County Clerks reports that fees are collected for fewer than half of child support cases. The actual amount of support and maintenance fee revenue which would be shifted from the county to the state is unknown. The DCS reports that approximately 70% of child support payments are made through income withholding order, 20% are made by some other form (e.g., check), and 10% are made in cash. Thus, it is likely that the majority of support and maintenance fees currently collected would be shifted from the county to the state.

Fee Changes: This bill also changes the Support and Maintenance Fee amounts. The table below presents fee information under current law and as proposed.

Child Support and Maintenance Fee Amounts.		
	Current Law	As Proposed
Initial Year	Fees are \$20 between January 1 and June 30; and \$10 between July 1 and December 31.	Fees would be \$30.
Subsequent Year(s)	Fees are \$20 in January; and \$30 from February through December.	Fees would be \$30.

As stated above, data is not collected which indicates the actual number of persons paying support and maintenance fees, or in what manner persons paying fees pay their child support (i.e., income withholding order; cash, or other). Thus, the month of payment or amount paid for an individual person is unknown. As a result, changes in fees collected are unknown. The tables below present information demonstrating actual fee changes.

Initial Year Fees (Current, As Proposed, and Difference)*:				
	Current Law	As Proposed	Difference	% Fees Currently Paid in Month
January - June	\$20	\$30	\$10 increase	74%
July - December	\$10	\$30	\$20 increase	26%

Subsequent Year Fees (Current, As Proposed, and Difference).				
	Current Law	As Proposed	Difference	% Fees Currently Paid in Month
January	\$20	\$30	\$10 Increase	46%
February through December	\$30	\$30	No change	54%

Income Withholding Orders and Fees: This bill would amend the definition of "income withholding order" to include support and maintenance fees. This provision of the bill would significantly increase revenue collected from support and maintenance fees. As stated above, support and maintenance fees are paid on fewer than half of all child support cases. In addition, approximately 70% of child support payments are made through income withholding order, 20% are made by other form (for example, check), and 10% are made in cash. The number of persons currently paying through income withholding that pay support and maintenance fees are unknown. Actual increases in revenue would be dependent on the number of additional persons paying support and maintenance fees through income withholding orders.

Background Information on Support and Maintenance Fees Collected: Total maintenance and support fees collected in SFY 2004 totaled \$2.2 M. The federal government requires the state to provide to them reimbursement of 66% of fees collected in IV-D cases. The table below presents figures for total fees collected minus federal reimbursement of fees. Counties collected a total of \$1.5 M in fee revenue during FY 2004.

Total Maintenance and Support Fees Collected by Counties, SFY 2004.			
	Total Fees Collected	Money Owed to Federal Gov. for Reimbursement	Total Fees Collected by Counties
IV-D	\$1,048,801	\$692,209	
Non IV-D	\$1,121,177	\$0	
Total	\$2,169,978	\$692,209	\$1,477,769

(H) *Distribution of Child Support Incentive Money*: Under current law, the Bureau distributes child support payments to counties for enforcing and collecting support rights. Counties then distribute incentive money to the county general fund (33.3%), the operating budget of the prosecuting attorney (33.3%), and the operating budget of the circuit court clerk (33.3%).

As proposed, the county general fund would receive 22.2% of incentive money distributed, prosecuting attorneys would receive 33.4%, the circuit court clerk would receive 22.2%, and the Bureau would retain 22.2%. Based on a revised estimate provided by the Bureau, the state has received, on average, approximately \$5.5 M annually in child support incentive payments from the federal government. The table below shows the distribution of incentive payments under current law and as proposed by the bill. (*Note*: Dollars presented in the table are in millions.)

	Currently	As Proposed
Child Support Bureau	\$0	\$1.2
Prosecuting Attorneys	\$1.8	\$1.8
County General Fund	\$1.8	\$1.2
Circuit Court Clerk	\$1.8	\$1.2
Total	\$5.5	\$5.5

The bill also requires the Bureau to include requirements stipulating service levels which a prosecuting attorney or private entity is expected to meet in a contract entered into between the Bureau and a prosecuting attorney or private entity. The Bureau would then disburse incentive money based on whether a prosecuting attorney or private entity meets the service levels stipulated in the agreement.

Summary of Net Local Impact: (Revised) The bill would reduce overall workload for clerks of the court, a result of the moving of all non-income withholding/non-cash payments from the county to the state.

Counties would experience a reduction in revenue through: (1) the moving of child support and maintenance fee collection for persons paying through income withholding orders and non-income withholding/non-cash payments to the state (actual fee revenue shifted to the state is unknown, however, would be between \$0 and \$1.5 M), and (2) shifting approximately \$1.2 M in revenue received from child support incentive money from the county to the state.

The bill also increases child support and maintenance fees. This provision of the bill would result in an increase in fees collected by counties from all persons paying child support payments in cash. However, actual increases are unknown.

Explanation of Local Expenditures: (Revised) (A) *Moving the Collection Point for Non-Income Withholding/Non-Cash Child Support Payments*: This provision of the bill would reduce overall workload for clerks of the court by moving collection of all non-income withholding/non-cash payments to the state. Clerks are currently responsible for collection of all non-income withholding order payments. The DCS reports that 20% of child support payments are made through non-income withholding/non-cash payment.

Explanation of Local Revenues: (Revised) (G) *Moving Child Support and Maintenance Fee Collection from the County to the State and Fee Changes:* The Association of County Clerks reports that revenue collected from support and maintenance fees is used for personnel and administrative costs. In addition, clerks are required statutorily to use revenue collected from fees for "clean-up" of improper disbursement of child support payments. Fees collected by the Unit will be retained by the Unit. This bill will result in fewer fees collected and retained by the counties and more to be collected and retained by the state. Actual reductions in revenue for counties are unknown (see *Explanation of State Revenues*, G).

Fee Changes: Under the bill, child support and maintenance fees would be increased resulting in an increase in fee revenue collected by counties from all persons paying child support payments in cash. Actual increases are unknown (see *Explanation of State Revenues*, G).

(H) *Distribution of Child Support Incentive Money:* As proposed, counties would experience a reduction of approximately \$1.2 M in revenue received from child support incentive money (see *Explanation of State Revenues*, H).

State Agencies Affected: Department of Child Services.

Local Agencies Affected: Clerks of the Court.

Information Sources: John Ryan, Department of Child Services; Wendy Yerkes, Department of Child Services; Mary Sawyer, Deloitte Touche Tohmatsu; Mike Aronson, Department of Child Services; John Wood, Department of Child Services; Linda Phillips, Association of County Clerks.

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